

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Single Family Appraisal Industry Roundtable Washington, D.C., October 7, 1998

EXECUTIVE SUMMARY

As a follow-up to the Washington Roundtable held in Chicago on September 11, the HUD-sponsored Roundtable on October 7 provided participants with a forum to continue discussion of HUD's proposed reforms to the single-family appraisal process. The roundtable focused on the October 2 drafts of the Uniform Residential Appraisal Report (URAR) and the Valuations Conditions (VC) form. There was also dialogue on the qualifications and professional training of appraisers selected by HUD-approved lenders.

Representatives from the appraisal, real estate, lending, legal, insurance liability, state licensing boards and professional training industries joined in the discussion, either in person or via teleconferencing. Participants at the table were provided with a packet of materials, which included:

- Revised Draft Uniform Residential Appraisal Report (URAR)
- Revised Draft Valuation Conditions (VC) Form
- Comments and recommendations received from participants regarding reform of the single-family appraisal process via mail and HUD Internet site
- Outline of HUD/FHA Single Family Appraisal Pocket Guide

In an ongoing effort to improve the appraisal process for all parties involved, HUD will review comments and suggestions made by roundtable participants and address these to the best of its ability.

Introduction

William C. Apgar, recently confirmed, Assistant Secretary for Housing - Federal Housing Commissioner, welcomed roundtable participants, thanking them for their feedback and emphasizing the need for additional input. Mr. Apgar stated that the purpose of today's meeting was to solicit comments on the revised draft URAR and VC sheet, as well as to discuss the professional training and qualifications of appraisers. Written input should be forwarded to Leonard Nowak, the REAC contact for HUD. Contact information is provided at the end of this roundtable summary.

According to D.J. LaVoy, a principal change has been the linkage of the VC sheet and the URAR, as indicated by "Part I" at the top of the VC and "Part II" at the top of the URAR. He stated that there needs to be a clear tie between the observation of each respective document so that buyers are aware of potential problems noted during the valuation condition process

before they sign any forms. Mr. LaVoy stressed the importance of input from stakeholders in the appraisal industry.

Summary of Discussion on Uniform Residential Appraisal Report (URAR)

- **Spatial Layout:** Participants expressed concerns about the spatial layout of the document, commenting that there does not appear to be enough room on the URAR for additional information (for example, line 7 of Subject: "description and \$ amount of loan charge"). The point was also raised that the current URAR does not provide space to comment on positive aspects of the property. HUD officials agreed that the URAR needs to be transformed into a scanable document and the spatial layout improved, but asked that today's meeting focus on document content.
- **Primary changes to previous draft:** Participants were informed of the most recent changes to the URAR. These revisions include:
 - 1) The rider to certification now only appears in the URAR, rather than in both documents;
 - 2) Questions regarding whether or not appraiser had undergone any investigations were eliminated and the question "have you had any actions taken against you regarding any appraisal investigation in the past two years?" was left on the form.
 - 3) HUD is still considering whether or not to make the URAR an all-inclusive document or to have a separate document for REO.
- **Contingent and Limiting Condition #11:** This item on the URAR reads, "... the lender/client may distribute the property description section of the report only to data collection or reporting service(s) without having to obtain the appraiser's prior written consent."
 - Concern was voiced over the lender/client's ability to distribute information about property description. The individual raising this concern felt that an appraiser's value-added is his/her assessment of neighborhood conditions and other valuation elements. In this aspect, condition #11 would violate copyright laws and, specifically, HR 2652 (Anti-Piracy Act, which was recently passed through the House).
 - The response was that, in order to create a comprehensive database and avoid redundancy, HUD needs to continue to collect property description data from appraisers. This information is not considered value-added because it is merely basic, descriptive information.
 - Other participants were worried that condition #11 violates the privacy between a buyer and seller.
- **Required Disclosure:** This item on the URAR reads, "Have you had any actions taken against you regarding any appraisal investigations in the past two years?"

- Of issue was why this disclosure is signed *after* the appraisal is completed and the transaction about to close. By this time, it might be too late to remedy the situation.
 - One suggestion was for the lender to screen the appraisers they hire and for there to be periodic certification of appraisers.
 - The language needs to be clarified. Specifically, what exactly does “any actions” mean? A participant suggested that this might be changed to “Has any regulatory authority or professional association adjudicated any action against you?”
 - Another attendee added that if adjudication occurs, it should be reported to HUD immediately. HUD should then evaluate the appraiser and notify lenders. Reasons for removing appraisers include poor reviews and suspension/probation by the State Board.
 - HUD is also considering the idea of an electronic clearinghouse which would include a listing of HUD approved lenders/appraisers who have had actions adjudicated against them.
 - The issue of enforcement was raised by an individual who wanted to know whether or not HUD would pursue sanctions against appraisers who have had actions taken against them. HUD responded that they are working on this issue.
 - Again, participants stressed that this disclosure must be done up-front and early in the process (when the FHA appraisal is ordered), rather than at the end, because such a late disclosure undermines the entire appraisal report.
- **Value Adjustments:** a concern was raised as to why “Structural Conditions/Roofing” is included as an adjustment item when the appraiser is required to appraise the home “as repaired.” It was agreed that the key is whether the buyer or the seller pays for the repair and that the buyer needs to be informed of the home’s post-repair value.
 - **Burdensome HUD forms:** Another participant brought up the issue of HUD forms being out of step with forms in the conventional (Fannie Mae, Freddie Mac) market. Whereas Fannie Mae and Freddie Mac have moved towards streamlined, automated appraisals and shorter forms, HUD appears to be moving in the opposite direction. HUD’s response was that FHA serves a different segment of the home buying public. An FHA mortgagor is more likely to have a smaller down payment, to be a first time homebuyer, and to be purchasing an older home in an urban area. However, the Department is making an effort to achieve its goals without burdening the process with unnecessary paperwork.

Summary of Discussion on the Valuation Condition (VC) Sheet

- Participants were pleased with the tremendous improvement from the first draft, but noted that the VC Sheet has a number of issues that still need to be resolved.

- **Checked boxes:** The wording regarding checked boxes needs to be clarified because it sounds as though any check will trigger a home inspection when, in fact, some checks are more important than others. A suggestion was made that the appraiser not be the final observer of the home's condition but, rather, that should be left to the home inspector. Another suggestion was for a state-licensed technician to confirm, in ambiguous cases, that the appraiser was correct in his/her appraisal.
- **Home inspections:** A major point of discussion was what, if any, observations would trigger a recommendation for a home inspection. One participant mentioned that he preferred to leave discretion up to the appraiser regarding recommendations of housing inspections. However, a dollar value threshold (relative to the value of the home) which would warrant home inspections could also be used to determine when a recommendation for a home inspection is appropriate. A suggestion was made for a tiering system to be created whereby basic housing problems are immediately remedied by the appropriate technician, while apparently serious problems would trigger a home inspectors before any other actions are taken.

One attendee asked what it means to receive a "yes" on the home inspection recommendation. HUD's response was that the homeowner needs to be informed of the deficiency and that an inspection is recommended. Whether or not the buyer pursues the inspection is left to his/her discretion, but the condition must be repaired before FHA will insure the property.

When making the recommendation for a home inspection, a balance between objective and subjective observations must be achieved. While the appraisal remains, to some degree, subjective, HUD needs to specify items that can be objectively cross-checked. For example, the question "Is the heating system working properly?" is too subjective and instead the form asks, "Is warm air being emitted?"

One individual asked whether or not appraisers who are also home inspectors could perform both tasks. Several participants voiced disapproval over this suggestion because of a perceived conflict of interest.

- **Tightening of language:** In some areas, more specific language needs to be used. For example, "irregular noises or smells" can be construed to mean a variety of things. Furthermore, these smells might not be indicative of a serious problem because furnaces, for example, emit different odors in the fall than they do in the winter.
- **Duplication:** There appears to be some duplication between VC-1 (Structural Condition) and VC-2 (Attic, Basement, Crawl Space): for example, "support structure intact" (VC-1) and "support beams not intact" (VC-2).
- **User-friendliness:** Because the VC sheet will be used by homebuyers as a disclosure notice, it must be as straightforward and easy to understand as possible.

- **Shifting of responsibility:** One participant expressed concern that there is an apparent shifting of responsibility from appraisers, for whom we know the qualifications and training standards, to home inspectors who are not regulated and certified.
- **Buyer disclosure:** The question was asked whether or not HUD would require buyer disclosure for states that do not currently have this. HUD informed participants that this issue is still being discussed.

Summary of Discussion on Appraiser Training and Qualifications

Roundtable participants had an informative discussion on the topic of training appraisers used by HUD-approved lenders and ensuring that appraisers meet industry standards. HUD welcomes all comments and suggestions.

- **Education and Training of Appraisers:** One caller differentiated between two areas of education, training that is needed to initially place persons on the roster of approved appraisers and re-training or re-certification of appraisers over time. HUD agreed that a standard needs to be set, but emphasized the importance of everyone having an equal opportunity to qualify. HUD also brought up the idea of a triage of “sanctions” whereby the offending appraiser could be disciplined in a number of ways, including additional education and training and, in extreme cases, prosecution.

The suggestion was made for new appraisers to undergo training and receive certification. There would be an interim period to complete the initial training and, later, an additional requirement of a certain number of years of experience.

- **Issuance of ID Numbers:** The question was asked whether HUD will issue numbers for FHA approved appraisers and the response was, yes, there will be a clearinghouse to issue ID numbers to appraisers. The individual also asked whether or not there would be certified contractors for home repairs. HUD responded by saying that this is uncertain and that it is a state and local licensing issue.
- **Textbook:** A caller brought up the issue of training textbooks and suggested that the HUD appraiser manual be used as the core text. Another participant felt that HUD should take advantage of the competitive marketplace for appraiser training, rather than undertaking training itself. A range of alternatives include certifying training materials, certifying instructors, preparing a syllabus of requirements and approving courses.
 - The concern was raised that the FHA appraiser training plan will rely solely on FHA specified training and accountability. It was suggested that the state licensing board be brought into the process and made aware of FHA standards, sanctions and guidelines.

Summary of Closing

HUD concluded the roundtable by thanking all participants and encouraging the continued free flow of dialogue. Please review the latest drafts of the URAR and VC sheet and send all comments and suggestions regarding the documents or any other issues to HUD.

Updated URL for Real Estate Assessment Center (REAC):

<http://www.hud.gov/reac/>

The REAC contact person is:

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